

**ANALYSIS OF THE STUDENT LOAN TRUST FUND FOR THE 2003-05 AND 2005-07 BIENNIUMS
(REFLECTING THE 2005-07 BIENNIUM EXECUTIVE BUDGET RECOMMENDATION)**

	<u>2003-05 Biennium¹</u>	<u>2005-07 Biennium¹</u>
Beginning balance	\$54,248,000	\$27,789,031
Add estimated revenues		
Fund earnings (net)	<u>\$3,900,000</u>	<u>\$3,900,000</u>
Total available	\$58,148,000	\$31,689,031
Less estimated expenditures		
Transfers to the general fund	\$26,258,969 ²	\$9,000,000 ³
Funding for North Dakota Student Loan Guarantee Agency	<u>4,100,000</u>	<u>0</u>
Total estimated expenditures	<u>\$30,358,969</u>	<u>\$9,000,000</u>
Estimated ending balance	<u><u>\$27,789,031</u></u>	<u><u>\$22,689,031</u></u>

¹This analysis reflects estimated revenues, expenditures, and ending balance for the **first general bond resolution only**.

²The 2003 Legislative Assembly provided for the following transfers totaling \$26,258,969 from the student loan trust fund to the general fund:

Section 12 of Senate Bill No. 2015 - \$11,000,000
Section 19 of House Bill No. 1003 - \$14,258,969
Section 6 of House Bill No. 1019 - \$1,000,000

³The 2005-07 executive budget recommends transferring \$9,000,000 from the student loan trust fund to the general fund.

FUND HISTORY

The 1971 Legislative Assembly authorized the Industrial Commission to acquire and hold all unpaid government-guaranteed or reinsured student loans and North Dakota student loans belonging to the state or any of its agencies. As a result, the student loan trust fund was created, which enabled the state to sell tax-exempt bonds and use the proceeds for purchasing student loans made or acquired by the Bank of North Dakota.

The student loan trust fund is not in the business of making loans to students or servicing loans which it acquires. The Bank of North Dakota continues to service those loans which the student loan trust fund holds.

The student loan trust is comprised of funds held under two general bond resolutions. The first general bond resolution includes funds from bonds issued in 1979, 1988, 1989, 1992, and 2004. The second general bond resolution referred to as the 1996 bond resolution includes funds from bonds issued in 1996, 1997, 1998, and 2000. All issuances prior to 2004 with bonds outstanding are insured by Ambac Assurance Corporation.

Under both of the bond resolutions, assets may only be used for:

- Purchase of student loans.
- Payment of debt service to bondholders.
- Providing financial assistance to the North Dakota Student Loan Guarantee Agency.
- Payment of any rebate liability to the federal government.
- Administration of the student loan trust fund.

In addition, North Dakota Century Code Section 6-09-40 provides that the Bank of North Dakota shall request from the Industrial Commission a transfer from the student loan trust fund to reimburse the Bank for any losses incurred from investments in North Dakota alternative and venture capital investments and early-stage capital funds. Section 10-30.5-04(3) provides that the maximum amount of funds that may be borrowed from the Bank of North Dakota for the purpose of investing in North Dakota alternative and venture capital investments and early-stage capital funds is \$5 million.

After all bonds in a general bond resolution have matured, been redeemed or defeased, and all expenses paid, any remaining assets held under the general bond resolution would be transferred to the Industrial Commission for use at its discretion. In order to use assets held under the general bond resolution for a purpose other than those stated in the general bond resolution, the administrator of the student loan trust fund must receive permission from the bond insurer, and the trustee of the bond (Bank of North Dakota) would have to certify that sufficient reserves remain for bond payments and other related program costs.

The 2003 Legislative Assembly with the passage of Senate Bill No. 2232 authorized the Industrial Commission to issue subordinate or residual bonds of up to \$23 million, and as a result the Industrial Commission issued \$23 million of subordinate bonds on December 1, 2004.